

TOWNSHIP OF SHERMAN
Gladwin County, Michigan
26-1140
FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

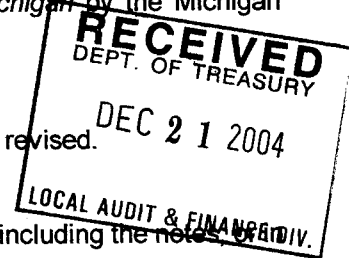
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|--|--|--|--------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Township of Sherman | County Gladwin |
| Audit Date June 30, 2004 | Opinion Date September 3, 2004 | Date Accountant Report Submitted to State: September 3, 2004 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, and the report of comments and recommendations



You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|-------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | City Bay City | State MI | Zip 48707 |
| Accountant Signature Campbell, Kusterer & Co., P.C. | | | |

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

September 3, 2004

To the Township Board
Township of Sherman
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sherman, Gladwin County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sherman's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sherman, Gladwin County, Michigan as of June 30, 2004, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

The Management's Discussion and Analysis report of the Township of Sherman covers the Township's financial performance during the year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

Total Township expenses show a reduction of 8.3% or almost \$12,000.00 during this fiscal year. This was primarily the result of close budget monitoring throughout the year. Board members were well aware of decreases of State revenue sharing. This prompted the board to adopt a conservative plan of spending.

The State of Michigan has mandated changes in reporting practices. This, coupled with the unfortunate loss of some records from the clerks office during mid-term transition has brought about modifications. The Township is now keeping records electronically with the result being secure and accurate financial records.

The Township has implemented a standardized chart of accounts to better identify expenditures within their respective categories. This allows the Township to access financial records in a timely and efficient manner.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Garbage Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Garbage Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Over the course of the year, the Township Board amended the budget eight times to take into account events during the year. The most significant change was to increase the Gladwin County Record line item; \$1,000.00 for advertisements and notices for public hearings. These hearings were held in conjunction with the creation of special assessment districts for Lake Lochbrae weed control, a Grass Lake Lake Improvement Board and a Fire Protection District. The costs associated with these advertisements were not anticipated during the budget hearings. Township departments overall stayed below budget, resulting in total expenditures being below budget. This allowed the Township's net assets for governmental activities to increase by \$16,827.40 for the fiscal year ended June 30, 2004.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$47,551.67 and fire protection, which incurred expenses of \$24,820.80 in 2004. The fire protection service is totally supported by a special Fire millage.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At the end of FY 2003-2004, the Township had \$79,233.94 invested in capital assets, including buildings. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Gladwin County Road Commission (along with the responsibility to maintain them).

The Township of Sherman had no long-term debt activity during the fiscal year ended June 30, 2004.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Plans to complete the north end roadbed for Chappel Dam Road to Sugar River Road will impact the Township's resources significantly. The Township's budget for 2005, however, calls for no increase on Township operating millages. This can be accomplished because of the strong growth in our tax base. Because of the impact of proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Sherman Township
Gladwin County, Michigan
Management's Discussion and Analysis

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | 205 806 47 |
| Taxes receivable | 9 217 29 |
| Special assessments receivable | <u>13 518 84</u> |
| Total Current Assets | <u>228 542 60</u> |
| NONCURRENT ASSETS: | |
| Capital Assets | 79 233 94 |
| Less: Accumulated Depreciation | <u>(39 635 74)</u> |
| Total Noncurrent Assets | <u>39 598 20</u> |
| TOTAL ASSETS | <u>268 140 80</u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES: | |
| Accounts payable | <u>3 751 05</u> |
| Total Current Liabilities | <u>3 751 05</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 39 598 20 |
| Unrestricted | <u>224 791 55</u> |
| Total Net Assets | <u>264 389 75</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>268 140 80</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

| | <u>Expenses</u> | <u>Program Revenue</u> | <u>Governmental Activities Net (Expense) Revenue and changes in net Assets</u> |
|-------------------------------|-------------------|----------------------------|--|
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| Legislative | 2 966 40 | - | 2 966 40 |
| General government | 58 895 11 | - | 58 895 11 |
| Public safety | 24 820 80 | - | 24 820 80 |
| Public works | 116 313 43 | 87 742 15 | 28 571 28 |
| Other | 3 485 79 | - | 3 485 79 |
| | <u>206 481 53</u> | <u>87 742 15</u> | <u>118 739 38</u> |
| Total Governmental Activities | | | |
| General Revenues: | | | |
| Property taxes | | | 46 140 58 |
| Swamp tax | | | 6 448 55 |
| State revenue sharing | | | 77 092 81 |
| Interest | | | 3 300 01 |
| Miscellaneous | | | 2 584 83 |
| | | | <u>135 566 78</u> |
| Total General Revenues | | | |
| Change in net assets | | | 16 827 40 |
| Net assets, beginning of year | | | <u>247 562 35</u> |
| Net Assets, End of Year | | | <u>264 389 75</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2004

| <u>Assets</u> | <u>General</u> | <u>Garbage</u> | <u>Total</u> |
|------------------------------------|-------------------|------------------|-------------------|
| Cash in bank | 167 256 06 | 38 506 59 | 205 762 65 |
| Taxes receivable | 9 217 29 | - | 9 217 29 |
| Special assessments receivable | - | 13 518 84 | 13 518 84 |
| Due from other funds | 43 82 | - | 43 82 |
| Total Assets | <u>176 517 17</u> | <u>52 025 43</u> | <u>228 542 60</u> |
| <u>Liabilities and Fund Equity</u> | | | |
| Liabilities: | | | |
| Accounts payable | 3 751 05 | - | 3 751 05 |
| Total liabilities | <u>3 751 05</u> | <u>-</u> | <u>3 751 05</u> |
| Fund equity: | | | |
| Fund balances: | | | |
| Unreserved: | | | |
| Undesignated | 172 766 12 | 52 025 43 | 224 791 55 |
| Total fund equity | <u>172 766 12</u> | <u>52 025 43</u> | <u>224 791 55</u> |
| Total Liabilities and Fund Equity | <u>176 517 17</u> | <u>52 025 43</u> | <u>228 542 60</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

| | |
|---|--------------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS | 224 791 55 |
| Amounts reported for governmental activities in the statement of net assets are different because – | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet: | |
| Capital assets at cost | 79 233 94 |
| Accumulated depreciation | <u>(39 635 74)</u> |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | <u><u>264 389 75</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2004

| | <u>General</u> | <u>Garbage</u> | <u>Total</u> |
|--------------------------------------|--------------------------|-------------------------|--------------------------|
| Revenues: | | | |
| Property taxes | 46 140 58 | - | 46 140 58 |
| Swamp tax | 6 448 55 | - | 6 448 55 |
| State revenue sharing | 77 092 81 | - | 77 092 81 |
| Interest | 3 144 98 | 155 03 | 3 300 01 |
| Special assessments | 15 770 15 | 71 972 00 | 87 742 15 |
| Miscellaneous | 2 584 83 | - | 2 584 83 |
| Total revenues | <u>151 181 90</u> | <u>72 127 03</u> | <u>223 308 93</u> |
| Expenditures: | | | |
| Legislative: | | | |
| Township Board | 2 966 40 | - | 2 966 40 |
| General government: | | | |
| Supervisor | 5 306 19 | - | 5 306 19 |
| Elections | 72 36 | - | 72 36 |
| Clerk | 7 846 07 | - | 7 846 07 |
| Assessor | 18 076 66 | - | 18 076 66 |
| Board of Review | 780 00 | - | 780 00 |
| Treasurer | 12 778 26 | - | 12 778 26 |
| Building and grounds | 3 256 94 | - | 3 256 94 |
| Dues | 625 93 | - | 625 93 |
| Publishing and supplies | 1 031 95 | - | 1 031 95 |
| Equalization | 2 334 04 | - | 2 334 04 |
| Cemetery | 1 764 00 | - | 1 764 00 |
| Unallocated | 2 722 93 | - | 2 722 93 |
| Public safety: | | | |
| Fire protection | 24 820 80 | - | 24 820 80 |
| Public works: | | | |
| Highways and streets | 47 551 67 | - | 47 551 67 |
| Sanitation | - | 68 761 76 | 68 761 76 |
| Other: | | | |
| Insurance | 2 375 00 | - | 2 375 00 |
| Pension | 1 110 79 | - | 1 110 79 |
| Total expenditures | <u>135 419 99</u> | <u>68 761 76</u> | <u>204 181 75</u> |
| Excess of revenues over expenditures | 15 761 91 | 3 365 27 | 19 127 18 |
| Fund balance, July 1 | <u>157 004 21</u> | <u>48 660 16</u> | <u>205 664 37</u> |
| Fund Balance, June 30 | <u><u>172 766 12</u></u> | <u><u>52 025 43</u></u> | <u><u>224 791 55</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 19 127 18

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense
Capital Outlay

(2 299 78)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

16 827 40

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sherman, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sherman. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.8251 mills, and the taxable value was \$25,819,507.00.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------------------|-------------|
| Buildings, additions and improvements | 10-30 years |
| Furniture and equipment | 3-20 years |

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$39,598.20.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 2 – Budgets and Budgetary Accounting (continued)

2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | |
|----------------|-----------------------------|
| | <u>Carrying Amounts</u> |
| Total Deposits | <u>205 806 47</u> |

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

| | <u>Bank Balances</u> |
|--------------------------------|--------------------------|
| Insured (FDIC) | 131 583 00 |
| Uninsured and Uncollateralized | <u>74 239 43</u> |
| Total Deposits | <u><u>205 822 43</u></u> |

The Township of Sherman did not have any investments as of June 30, 2004.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

| | <u>Balance 7/1/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/04</u> |
|--------------------------|---------------------------|--------------------------|------------------|----------------------------|
| Land | 15 000 00 | - | - | 15 000 00 |
| Buildings | 60 000 00 | - | - | 60 000 00 |
| Equipment | <u>4 233 94</u> | <u>-</u> | <u>-</u> | <u>4 233 94</u> |
| Total | 79 233 94 | - | - | 79 233 94 |
| Accumulated Depreciation | <u>(37 335 96)</u> | <u>(2 299 78)</u> | <u>-</u> | <u>(39 635 74)</u> |
| Net Capital Assets | <u><u>41 897 98</u></u> | <u><u>(2 299 78)</u></u> | <u>-</u> | <u><u>39 598 20</u></u> |

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2004, was \$1,110.79.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Sherman does not issue building permits. Building permits are issued by the County of Gladwin.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|-------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | 40 000 00 | 39 543 12 | 46 140 58 | 6 597 46 |
| Swamp tax | 6 000 00 | 6 000 00 | 6 448 55 | 448 55 |
| State revenue sharing | 78 935 00 | 75 672 00 | 77 092 81 | 1 420 81 |
| Interest | 1 150 00 | 1 150 00 | 3 144 98 | 1 994 98 |
| Special assessments | 8 000 00 | 3 550 00 | 15 770 15 | 12 220 15 |
| Miscellaneous | 7 190 00 | 5 515 00 | 2 584 83 | (2 930 17) |
| Total revenues | <u>141 275 00</u> | <u>131 430 12</u> | <u>151 181 90</u> | <u>19 751 78</u> |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 2 966 40 | 2 966 40 | 2 966 40 | - |
| General government: | | | | |
| Supervisor | 5 702 21 | 5 702 21 | 5 306 19 | (396 02) |
| Elections | 2 100 00 | 2 100 00 | 72 36 | (2 027 64) |
| Clerk | 8 427 76 | 8 427 76 | 7 846 07 | (581 69) |
| Assessor | 20 750 00 | 21 050 00 | 18 076 66 | (2 973 34) |
| Board of Review | 1 150 00 | 1 200 00 | 780 00 | (420 00) |
| Treasurer | 13 871 00 | 13 871 00 | 12 778 26 | (1 092 74) |
| Building and grounds | 3 850 00 | 3 850 00 | 3 256 94 | (593 06) |
| Dues | 720 00 | 1 720 00 | 625 93 | (1 094 07) |
| Publishing and supplies | 1 400 00 | 1 400 00 | 1 031 95 | (368 05) |
| Equalization | 2 500 00 | 2 500 00 | 2 334 04 | (165 96) |
| Cemetery | 2 450 00 | 2 700 00 | 1 764 00 | (936 00) |
| Unallocated | 11 450 00 | 11 850 00 | 2 722 93 | (9 127 07) |
| Public safety: | | | | |
| Fire protection | 25 000 00 | 25 000 00 | 24 820 80 | (179 20) |
| Public works: | | | | |
| Highways and streets | 166 376 01 | 166 376 01 | 47 551 67 | (118 824 34) |
| Other: | | | | |
| Insurance | 2 400 00 | 2 400 00 | 2 375 00 | (25 00) |
| Pension | 3 500 00 | 4 000 00 | 1 110 79 | (2 889 21) |
| Contingency | 10 000 00 | 7 500 00 | - | (7 500 00) |
| Capital outlay | 2 000 00 | 2 000 00 | - | (2 000 00) |
| Total expenditures | <u>286 613 38</u> | <u>286 613 38</u> | <u>135 419 99</u> | <u>(151 193 39)</u> |
| Excess (deficiency) of revenues over expenditures | (145 338 38) | (155 183 26) | 15 761 91 | 170 945 17 |
| Fund balance, July 1 | <u>145 338 38</u> | <u>155 183 26</u> | <u>157 004 21</u> | <u>1 820 95</u> |
| Fund Balance, June 30 | <u>-</u> | <u>-</u> | <u>172 766 12</u> | <u>172 766 12</u> |

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND
Year ended June 30, 2004

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------------|--|
| Revenues: | | | | |
| Interest | 150 00 | 150 00 | 155 03 | 5 03 |
| Special assessments | <u>60 500 00</u> | <u>58 400 00</u> | <u>71 972 00</u> | <u>13 572 00</u> |
| Total revenues | <u>60 650 00</u> | <u>58 550 00</u> | <u>72 127 03</u> | <u>13 577 03</u> |
| Expenditures: | | | | |
| Public works: | | | | |
| Sanitation | <u>78 335 00</u> | <u>78 335 00</u> | <u>68 761 76</u> | <u>(9 573 24)</u> |
| Total expenditures | <u>78 335 00</u> | <u>78 335 00</u> | <u>68 761 76</u> | <u>(9 573 24)</u> |
| Excess (deficiency) of revenues over expenditures | (17 685 00) | (19 785 00) | 3 365 27 | 23 150 27 |
| Fund balance, July 1 | <u>48 660 16</u> | <u>48 660 16</u> | <u>48 660 16</u> | <u>-</u> |
| Fund Balance, June 30 | <u><u>30 975 16</u></u> | <u><u>28 875 16</u></u> | <u><u>52 025 43</u></u> | <u><u>23 150 27</u></u> |

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2004

| | <u>Balance</u> <u>7/1/03</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/04</u> |
|--------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in bank | <u>55 96</u> | <u>772 631 90</u> | <u>772 644 04</u> | <u>43 82</u> |
| Total Assets | <u>55 96</u> | <u>772 631 90</u> | <u>772 644 04</u> | <u>43 82</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | <u>55 96</u> | <u>112 079 23</u> | <u>112 091 37</u> | <u>43 82</u> |
| Due to other units | <u>-</u> | <u>660 552 67</u> | <u>660 552 67</u> | <u>-</u> |
| Total Liabilities | <u>55 96</u> | <u>772 631 90</u> | <u>772 644 04</u> | <u>43 82</u> |

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 2004

| | |
|--|------------|
| Cash on hand and in bank – beginning of year | 55 96 |
| Cash receipts: | |
| Property taxes | 772 450 74 |
| Interest earned | 181 16 |
| Total cash receipts | 772 631 90 |
| Total beginning balance and cash receipts | 772 687 86 |
| Cash disbursements: | |
| Township General Fund | 53 638 21 |
| Township Garbage Fund | 58 453 16 |
| Gladwin County | 335 605 41 |
| Mid-Michigan Community College | 28 735 83 |
| Clare-Gladwin Intermediate School District | 47 920 06 |
| Gladwin Community Schools | 110 622 71 |
| Harrison Community Schools | 136 387 36 |
| Refunds | 1 281 30 |
| Total cash disbursements | 772 644 04 |
| Cash on Hand and in Bank – End of Year | 43 82 |

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

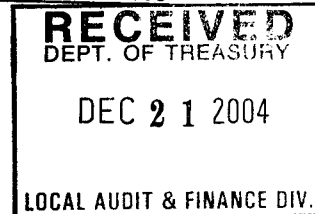
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BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 3, 2004

To the Township Board
Township of Sherman
Gladwin County, Michigan



We have audited the financial statements of the Township of Sherman for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sherman in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Sherman
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Township of Sherman began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2004.

To the Township Board
Township of Sherman
Gladwin County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants